DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL

From The Office Of State Auditor
Claire McCaskill

AUDIT REPORT

Report No. 2002-53
July 30, 2002
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Office Of The
State Auditor Of Missouri
Claire McCaskill

July 2002

YELLOW SHEET

The following problems were discovered as a result of an audit conducted by our office of the Department of Public Safety, Division of Liquor Control.

The Department of Public Safety, Division of Liquor Control (DLC) restricted the bidding process by not considering other locations or dates for an in-service training provided to employees at Osage Beach in November 2000. The DLC did not consider other locations, vendors, or dates for the in-service training conference that may have resulted in lower costs.

The costs incurred by the DLC included approximately $1,750 and $630 in lodging expenses and mileage reimbursements, respectively, for twenty one employees domiciled in Jefferson City to attend this conference. Additionally, four state vehicles were driven to Osage Beach for this conference. Most of these costs could have been avoided if the conference was held in Jefferson City.

The DLC currently provides a cellular telephone to fifty-seven DLC employees, including the DLC Supervisor, Deputy DLC Supervisor, and Enforcement Manager. The DLC has not developed a written policy regarding cellular telephone usage. Additionally, the DLC does not require an independent review to be performed of the Enforcement Manager, Deputy DLC Supervisor, and the DLC Supervisor's cellular telephone bills.

Vehicle mileage logs were not maintained by the DLC Supervisor, and the mileage logs prepared by the DLC's Deputy Supervisor and Enforcement Manager were not complete. Additionally, there appeared to be little or no review of these logs to ensure use was proper. Our review of these logs noted several instances of apparent personal use beyond commuting.

Also included in the audit are other recommendations to improve general fixed asset records and procedures and additional cellular telephone concerns.

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DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL

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STATE AUDITOR'S REPORT

CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Charles R. Jackson, Director
Department of Public Safety
and
Keith Fuller, Supervisor
Division of Liquor Control
Jefferson City, MO 65102

We have audited the Department of Public Safety, Division of Liquor Control. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2001 and 2000. The objectives of this audit were to:

1. Review certain management practices and financial information for compliance with applicable statutes, regulations, and agency policy.

2. Review the efficiency and effectiveness of certain management practices and operations.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the division's revenues, expenditures, contracts, and other pertinent procedures and documents, and interviewed division personnel.

As part of our audit, we assessed the division's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

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The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the division's management and was not subjected to the procedures applied in the audit of the Department of Public Safety, Division of Liquor Control.

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Public Safety, Division of Liquor Control.

Claire McCaskill
State Auditor

April 26, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Pam Crawford, CPA
In-Charge Auditor:	John Lieser, CPA
Audit Staff:	Michael Paynter

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Training Conferences

The Department of Public Safety, Division of Liquor Control (DLC) restricted the bidding process by not considering other locations or dates for an in-service training provided to employees at Osage Beach in November 2000. The DLC paid conference expenses including lodging, meeting room rental fees, and refreshments totaling $9,186. The DLC did request bids from three vendors in Osage Beach; however, only one vendor was able to provide a bid for the dates specified. The DLC did not consider other locations, vendors, or dates for the in-service training conference that may have resulted in lower costs.

The costs incurred by the DLC included approximately $1,750 and $630 in lodging expenses and mileage reimbursements, respectively, for twenty one employees domiciled in Jefferson City to attend this conference. In addition to these costs, four state vehicles were driven to Osage Beach for this conference. Most of these costs could have been avoided if the conference was held in Jefferson City. In addition, the DLC paid $940 for hors d'oeuvres and snacks during evening receptions at the in-service training which appeared to be unnecessary.

Section 34.040, RSMo 2000, requires all purchases in excess of $3,000 to be competitively bid. Formal, competitive bidding procedures for major purchases provides a framework for economical management of the DLC resources and helps ensure the DLC receives fair value by contracting with the lowest and best bidders. Competitive bidding also ensures all interested parties are given an equal opportunity to participate in the state's business.

In addition, the DLC needs to reevaluate these expenditures in an effort to eliminate any unnecessary costs and ensure the efficient use of the state resources.

WE RECOMMEND the DLC solicit bids in a competitive environment for all purchases, and review expenditures for future conferences to ensure the costs are reasonable and necessary.

AUDITEE'S RESPONSE

The DLC concurs with the recommendation and has already taken steps to avail itself to be more flexible about dates and locations to lower costs.

2. Cellular Telephones

The DLC currently provides a cellular telephone to the DLC Supervisor, Deputy DLC Supervisor, Enforcement Manager, audit and computer information technology staff person, and each of the 47 enforcement agents and 6 district supervisors. During our review of the cellular telephones, we noted the following concerns:

A. The DLC has not developed a written policy regarding cellular telephone usage. A formal written policy is necessary to address the usage and monitoring of cellular phones to ensure they are properly used for business purposes.

B. The Enforcement Manager reviews the bills for the enforcement agents and district supervisors and the Deputy DLC Supervisor reviews the bills for the audit and computer information technology staff person to ensure no personal calls are made; however, an independent review is not performed of the Enforcement Manager, Deputy DLC Supervisor, and the DLC Supervisor's cellular telephone bills. We reviewed the previous DLC Supervisor's October 2000 cellular phone bill and noted numerous calls made to her personal residence and her husband's employer. The DLC was not reimbursed for these personal calls. The DLC should consider prohibiting the personal use of the cellular phones, except in cases of emergency, and require independent reviews of usage to ensure the policy is followed.

C. The DLC has had a delinquent balance totaling approximately $1,900 with the state contracted cellular telephone service provider for over one year. A DLC official indicated this balance was erroneous. The DLC has contacted the provider about this balance; however, the delinquent balance has not been resolved. The DLC should resolve the delinquent balance with the cellular telephone service provider and ensure any future billing problems are resolved promptly.

WE RECOMMEND the DLC develop a formal written policy regarding the use of cellular telephones, including a provision prohibiting their use for personal reasons. In addition, the DLC should establish a monitoring system for the usage of cellular phones. The DLC should also resolve the delinquent balance with the cellular phone service provider and ensure any future billing problems are resolved promptly.

AUDITEE'S RESPONSE

A. The DLC has revised internal policies and plans to adopt them officially in August 2002.

B. The DLC is considering changes to procedures regarding reviews of cellular telephone bills.

C. The DLC has made numerous efforts to resolve this issue and the vendor has not cooperated in resolving this matter.

3. State-Owned Vehicles

The DLC maintains 18 state-owned vehicles. The DLC Supervisor, Deputy Supervisor, Enforcement Manager, and 14 enforcement agents are each assigned a vehicle, and the remaining vehicle is available for use by all other central office employees. During our review of state owned vehicles, we noted the following concerns:

A. A vehicle mileage log is not maintained for the vehicle used by the DLC Supervisor. The vehicles used by the previous and current DLC Supervisors were driven approximately 50,000 miles in less than a three-year period. Since the DLC Supervisor's vehicle is used for travel relating to both business and commuting, a vehicle log is necessary to identify the purpose of each trip and to determine if the vehicle is justified for business purposes.

B. Mileage logs are prepared by all other division employees; however, the mileage logs were not always complete. For example, the purpose of travel was not indicated on any of the mileage logs prepared by the DLC's Deputy Supervisor and Enforcement Manager. Furthermore, there appeared to be little or no review of these logs to ensure use was proper. Our review of these logs noted several instances of apparent personal use beyond commuting.

Vehicle mileage logs documenting the date, destination, purpose of the trip, and mileage should be maintained for all vehicles. These logs should be periodically and independently reviewed to ensure vehicles are properly used for business purposes.

WE RECOMMEND the DLC require mileage logs to be completed and maintained for all state vehicles. The logs should include beginning and ending odometer readings, purpose of the trip, person making the trip, destination and date of travel. The logs should be independently reviewed for propriety and business necessity of the vehicle assignments.

AUDITEE'S RESPONSE

The DLC plans to implement the recommendations.

4. General Fixed Assets

The DLC's fixed assets at June 30, 2001 were valued at more than $1 million. Additions to the fixed asset records during the year ended June 30, 2001, were approximately $57,000 and deletions were nearly $15,000. We reviewed controls over these assets and noted the following concerns:

A. A physical inventory of the fixed assets is not performed on an annual basis as required by the Code of State Regulations at 15 CSR 40-2.031. The DLC has not performed an inventory of the fixed assets during the past six years.

   Annual physical inventories are necessary to establish proper accountability over fixed assets. Documentation of the physical inventory should be retained to show compliance with the state regulations. In addition, employees who are independent of the record keeping responsibilities should perform the physical inventory.

B. The DLC does not routinely reconcile additions to the general fixed asset records to records of expenditures for fixed asset acquisitions. For example, the DLC purchased six personal computers in June 2000, totaling $9,822, which have not been included on the general fixed assets records. Acquisitions of fixed assets should be periodically reconciled to additions to the fixed asset records to help ensure acquisitions of fixed assets are included on the fixed asset records.

WE RECOMMEND the DLC:

A. Conduct an annual physical inventory of the general fixed assets and reconcile the physical inventory to the fixed assets records.

B. Periodically reconcile fixed asset additions to the expenditure records.

AUDITEE'S RESPONSE

A. The DLC concurs with the recommendation. A physical inventory will be performed by the audit section annually.

B. The DLC concurs with the recommendation. The Executive I will periodically reconcile fixed asset additions to the expenditure records starting July 1, 2002.

This report is intended for the information of the management of the Department of Public Safety, Division of Liquor Control, and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Division of Liquor Control was established under the Liquor Control Act passed by the 57th General Assembly and signed by the Governor on January 13, 1934, and became effective on that date. The Omnibus State Reorganization Act of 1974 created the Department of Public Safety, and made the Division of Liquor Control, an agency of that department. The Intoxicating Liquor Law and Nonintoxicating Beer Law are Chapters 311 and 312, RSMo 2000.

The supervisor of the Division of Liquor Control is nominated by the director of the Department of Public Safety and appointed by the governor, with the advice and consent of the Senate. The supervisor is vested with the exclusive power to issue and to revoke or suspend licenses for the sale of intoxicating liquor and nonintoxicating beer, and with the power to promulgate rules and regulations governing the conduct and method of operation of all licensees set out in Section 311.660(10), RSMo 2000.

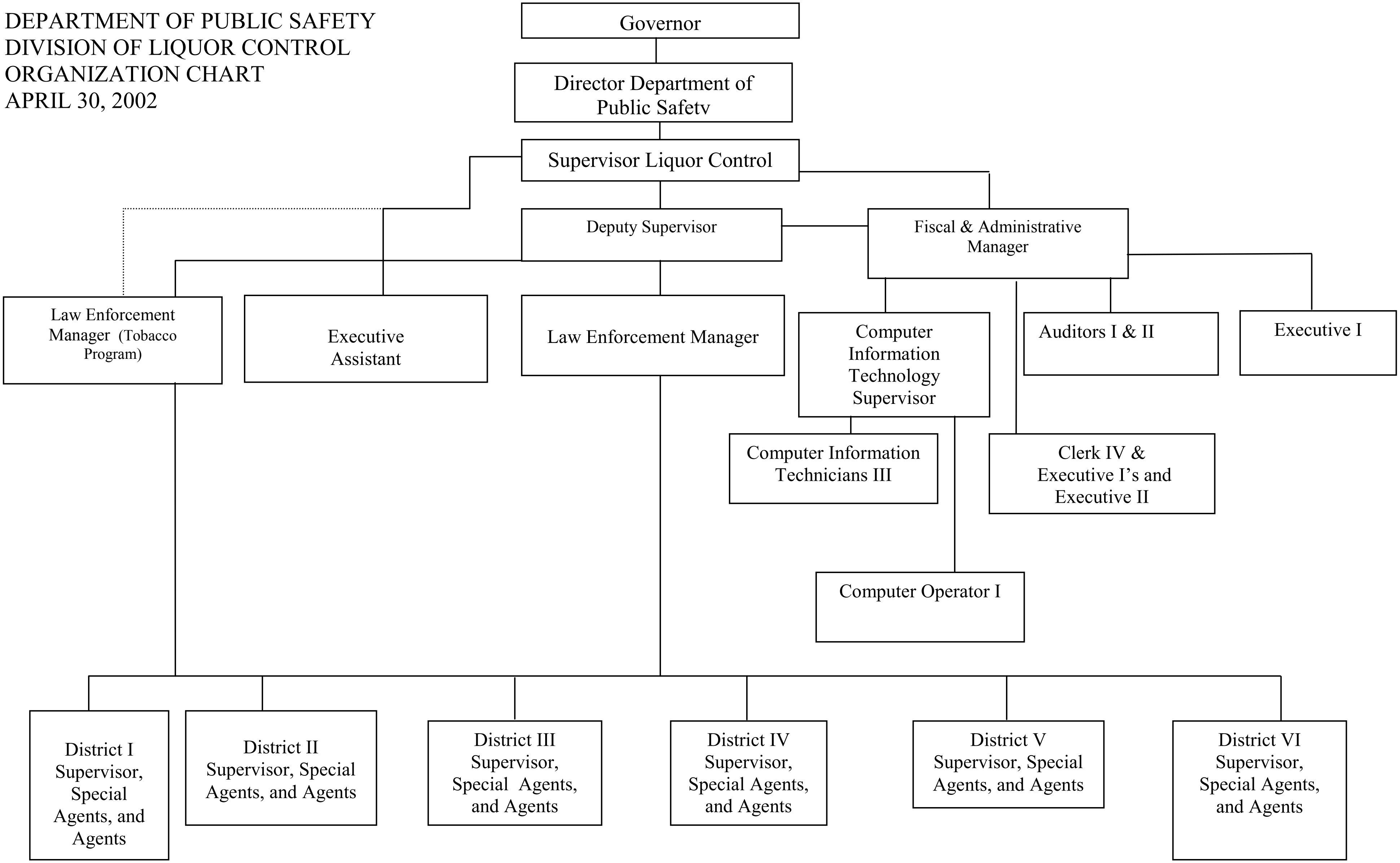
The agency issues licenses which authorize the manufacture, distribution, and sale of alcoholic beverages; monitors and collects taxes on alcoholic beverages distributed in Missouri; and enforces the Missouri statutes and administrative regulations related to the manufacture, distribution, and sale of alcoholic beverages.

In 2001, House Bill 381 required the Division of Liquor Control to begin implementing and enforcing the provisions of Sections 407.925 to 407.934, RSMo Supp. 2001, that prohibit the sale of tobacco products to any person less than eighteen years of age.

Hope Whitehead was appointed in June 1997 and served as supervisor of the Division of Liquor Control until January 2001. J T Taylor was appointed in January 2001 and served as acting supervisor of the division until June 2001. Gary Kempker was appointed in June 2001 and served as acting supervisor of the division until October 2001. Keith Fuller was appointed as supervisor of the Division of Liquor Control in October 2001.

At June 30, 2001, the Division of Liquor Control had seventy-five employees. An organization chart follows:

DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL
ORGANIZATION CHART
APRIL 30, 2002



Appendix A

DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL
COMPARATIVE STATEMENT OF RECEIPTS

		Year Ended June 30,					
		2001			2000		
		General Revenue Fund-State	Marketing Development Fund	Total	General Revenue Fund-State	Marketing Development Fund	Total
Liquor and wine taxes	$	17,313,639	489,702	17,803,341	16,698,716	488,155	17,186,871
Beer taxes		8,108,599	0	8,108,599	8,152,048	0	8,152,048
License fees		3,674,652	0	3,674,652	3,671,222	0	3,671,222
Miscellaneous		190,719	0	190,719	118,394	0	118,394
Total Receipts	$	29,287,609	489,702	29,777,311	28,640,380	488,155	29,128,535

Appendix B

DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	2001			2000		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal Service	$ 3,155,931	2,797,887	358,044	2,984,167	2,735,346	248,821
Equipment and Expense	699,444	635,243	64,201	792,318	791,103	1,215
For refunds for unused liquor and beer licenses and for liquor and beer stamps not used and cancelled	18,000	17,755	245	18,000	17,274	726
Total General Revenue Fund - State	3,873,375	3,450,885	422,490	3,794,485	3,543,723	250,762
GENERAL REVENUE FUND - FEDERAL						
Personal Service	180,063	122,959	57,104	177,906	66,016	111,890
Equipment and Expense	79,258	15,414	63,844	79,258	27,325	51,933
Total General Revenue Fund - Federal	259,321	138,373	120,948	257,164	93,341	163,823
Total All Funds	$ 4,132,696	3,589,258	543,438	4,051,649	3,637,064	414,585

Appendix C

DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

		Year Ended June 30,	
		2001	2000
Salaries and wages	$	2,920,846	2,801,361
Travel		266,156	307,778
Fuel and utilities		3,176	3,632
Supplies:			
Administrative and merchandising		82,569	111,430
Repair and maintenance		15,031	15,648
Specific use		8,454	9,618
Professional development		13,074	22,161
Services:			
Communication		72,831	103,478
Business		27,385	37,716
Professional		2,499	11,351
Equipment maintenance and repair		40,596	29,448
Transportation maintenance and repair		17,848	11,661
Equipment:			
Computer		9,548	120,497
Educational		2,037	0
Electronic		5,576	675
Motorized		43,941	0
Office		19,397	12,824
Property and improvements		12,184	12,472
Real property rentals and leases		3,296	2,310
Building and equipment rentals		1,101	617
Miscellaneous expenses		3,958	5,113
Refunds		17,755	17,274
Total Expenditures	$	3,589,258	3,637,064

Appendix D

DEPARTMENT OF PUBLIC SAFETY
DIVISION OF LIQUOR CONTROL
COMPARATIVE STATEMENT OF VARIOUS STATISTICS

	Year Ended June 30, 2001	2000
Licenses issued	24,066	23,764
Inspections performed	14,696	15,162
Investigations	13,823	13,774
Hearings held on violations issued to licensees	731	485
Minors arrested	877	606
Total arrests	1,494	695
Complaints logged	786	591
Licenses suspended	437	262
Licenses revoked	10	2
Dismissed with warnings	59	48
Desk audits performed	10,764	10,524
Field audits	15	6
Server trainings provided to licensees	305	426
Primary source applictions	1,665	1,527
Price posting transactions	175,913	161,486

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